

Message Text

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ACTION NEA-10

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FM AMEMBASSY MANAMA
TO SECSTATE WASH DC 4993
INFO AMEMBASSY ABU DHABI UAE
AMCONSUL DHAHRAN SAUDI ARABIA
AMEMBASSY KUWAIT KUWAIT
AMEMBASSY MUSCAT OMAN
AMEMBASSY TEHRAN IRAN

UNCLAS MANAMA 1623

E.O. 11652: N/A

TAGS: AGAO, BA

SUBJECT: GAO STUDY ON EFFECTS OF US TAX POLICY ON AMCITS
RESIDING OVERSEAS AND ON BALANCE OF TRADE

REF: ABU DHABI 2170

1. GAO REPRESENTATIVE TURNBOW SPENT A BUSY AND WE THOUGHT INTERESTING DAY IN BAHRAIN JULY 25 FOLLOWING HIS VISIT TO ABU DHABI (REFTEL). TURNBOW MET WITH SENIOR MANAGEMENT OF THE TWO LARGEST OIL-RELATED CONSTRUCTION FIRMS WITH MIDEAST REGIONAL OFFICES IN BAHRAIN (HALLIBURTON AND BROWN AND ROOT), THE PRESIDENT AND TWO MEMBERS OF THE LOCAL TAXPAYERS GROUP (WHO ALSO LOCKHEED REP AND EMPLOYEES OF NON-US FIRMS) AS WELL AS MIDEAST REP OF SUBSIDIARY OF LARGE OIL COMPANY (GULF OIL). THESE REPRESENTED THE MAJOR GROUPINGS OF AMCITS IN BAHRAIN WHO ARE NOT EMPLOYED BY THE USG.

2. AS IN ABU DHABI, ALL LOCAL REPS PRESENTED THOUGHTFUL, LOW-KEY BUT FORCEFUL, COMMENTS ON THE EFFECTS OF THE NEW TAX LAWS -- BOTH IN TERMS OF PERSONAL EFFECTS AS WELL AS IN UNCLASSIFIED

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TERMS OF OVERALL US INTERESTS, BALANCE OF TRADE, ETC. IN GENERAL, ALL AGREED THAT THE NUMBER OF AMERICANS WORKING IN BAHRAIN AND THIS REGION WOULD DECLINE RAPIDLY WHEN CURRENT CONTRACTS EXPIRED -- BOTH AS RESULT OF INDIVIDUALS' DECISIONS TO RETURN TO US AS WELL AS COMPANIES' DECISIONS TO RECRUIT NON-AMERICANS TO DO THE JOB. IN THE MEANTIME, OF COURSE, MOST AMERICAN FIRMS HAVE MADE COMMITMENT TO COM-

PENSATE FOR INCREASED TAXES, THUS IN ULTIMATE EFFECT,
FURTHER DRIVING UP THEIR COSTS AND FURTHER PENALIZING THEM-
SELVES IN TERMS OF COMPETITION LOCALLY WITH EUROPEAN AND EAST
ASIAN FIRMS.

3. MOST AMERICANS ASKED WHAT MOTIVATION LAY BEHIND THE NEW
LAWS; AS FAR AS THEY COULD SEE, IT WOULD HAVE DAMAGING EFFECTS
ALL AROUND ON THE US ECONOMY, TRADE, INCREASED UNEMPLOYMENT
(BOTH IN TERMS OF EXPORTS LOST AS WELL AS COMPETITION FOR
SCARCE JOBS WHEN WORKERS RETURN TO US).

4. EMBASSY WAS IMPRESSED WITH OVERWHELMING EVIDENCE ON THE
PART OF THE CONSTRUCTION FIRMS, WHICH ALONG WITH THE OIL
FIRMS THEMSELVES HAVE FORMED THE BACKBONE OF AMERICAN
PRESENCE IN THE REGION FOR TWENTY-FIVE YEARS, THAT FOR THE
PAST FOUR-FIVE YEARS THEY HAVE BEEN LESS ABLE TO COMPETE
WITH EAST ASIAN AND EUROPEAN FIRMS WHICH NOW HAVE OUR
TECHNOLOGY. THE NEW TAX LAWS WOULD SIMPLY FURTHER ACCELERATE
(BY INCREASING COSTS) THE DECLINING ROLE OF SUCH US FIRMS
IN THIS REGION.

5. AS FOR THE PLIGHT OF INDIVIDUAL AMCITS WHO WORK FOR
NON-US FIRMS, THEIRS IS AN EVEN MORE OBVIOUS SITUATION.
THERE IS NO WAY THAT FOREIGN FIRMS ARE GOING TO AGREE TO
COMPENSATE THEM FOR INCREASED US TAXES. IN THE SHORT RUN
THE INDIVIDUALS WILL SIMPLY HAVE TO PAY; IN THE LONG RUN
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(I.E., WHEN THEIR CONTRACTS EXPIRE) THEY WILL HEAD HOME --
AND FAST.
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Disposition Approved on Date:
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